

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

LYNDA SLEIGHER SHAFER

JULY 1, 2013



DOCKET NO. 2013-59-E

**Application of Duke Energy Carolinas, LLC
for Authority to Adjust and Increase Its
Electric Rates and Charges**

DIRECT TESTIMONY OF
LYNDA SLEIGHER SHAFER
FOR
THE OFFICE OF REGULATORY STAFF
DOCKET NO. 2013-59-E
IN RE: APPLICATION OF DUKE ENERGY CAROLINAS, LLC FOR
AUTHORITY TO ADJUST AND INCREASE ITS
ELECTRIC RATES AND CHARGES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Lynda Sleigher Shafer. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as an Electric Utilities Specialist in the Electric Department for the Office of Regulatory Staff (“ORS”).

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science Degree from the Bob Jones University in May 1995. I joined ORS in July 2009 as a Program Specialist and became an Electric Utilities Specialist in 2013. I have appeared before the Public Service Commission of South Carolina (“Commission”) previously in an allowable ex-parte proceeding concerning telecommunications market issues.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address certain areas of the ORS Electric Department’s examination of accounting and pro forma adjustments and to provide

recommendations concerning the Application of Duke Energy Carolinas, LLC (“Duke” or the “Company”) for authority to adjust and increase its electric rates and charges.

Q. WHICH ADJUSTMENTS ARE YOU ADDRESSING IN YOUR TESTIMONY?

A. My testimony addresses the adjustments proposed by the Company pertaining to the amortization of rate case expenses, an increase in vegetation management expenses, and the adoption of a connection charge for new service. Additionally, my testimony will address the Company’s coal inventory adjustment and ORS’s Customer Growth calculation. These adjustments are discussed in further detail in my testimony and were provided by the ORS Electric Department to the ORS Audit Department. They are shown in Exhibit RAL-2 of ORS witness Robert Lawyer.

Q. DOES ORS HAVE A RECOMMENDATION REGARDING THE COMPANY’S PROPOSED ADJUSTMENT TO AMORTIZE RATE CASE EXPENSES?

A. Yes, it does. ORS agrees with the Company’s method of annualizing prior rate case costs but recommends amortizing current expenses over five (5) years, as opposed to the three (3) year period proposed by the Company. Extending the amortization period and annualizing prior rate case costs result in an adjustment to test year expenses of \$14,000. This adjustment is also addressed by ORS witness Arnold Owino and is reflected in ORS witness Robert Lawyer’s Adjustment #17.

Q. PLEASE EXPLAIN ORS’S RECOMMENDATION PERTAINING TO THE COMPANY’S ADJUSTMENT FOR VEGETATION MANAGEMENT EXPENSES.

A. The Company proposes to increase the revenue requirement by \$5,005,000 for enhanced vegetation management operations. Company witness Jeffrey Corbett testifies

1 that the increase is necessary to address a slight rise in vegetation-related outages and to
2 continue to improve reliability. However, ORS found that over the past five (5) years,
3 despite the rise that witness Jeffrey Corbett mentioned, the number and duration of
4 Duke's service outages have been trending downward and its performance on reliability
5 indices compare favorably with other regulated electric utilities in the state.

6 ORS found that Duke's spending on vegetation management has fluctuated over
7 the past five (5) years with under-spending of amounts budgeted for capital and O&M.
8 ORS also finds that Duke's current budget has shown to be sufficient to sustain a
9 downward trend in the frequency and duration of service outages. Therefore, ORS
10 recommends that no adjustment be made to expenses at this time and that the Company
11 should consider utilizing the amounts budgeted to enhance vegetation management
12 initiatives.

13 **Q. PLEASE ADDRESS THE COMPANY'S REQUEST FOR A CONNECTION**
14 **CHARGE.**

15 **A.** The Company proposes increasing revenue in the amount of \$2,249,000 by
16 assessing a \$15 charge to customers requesting new service. The charge covers the costs
17 of processing new applications, setting up accounts and connecting the service on site.
18 Company witness Jeffrey Bailey testified that the connection charge will ensure that the
19 customers who caused the costs are paying for them rather than spreading the burden to
20 the entire customer base. Unlike a customer deposit, the new service connection fee is
21 non-refundable.

22 ORS finds that the amount of the charge has a direct correlation to the Company's
23 costs for initiating new service. Furthermore, the charge is consistent with similar fees

required by Duke Energy Progress, Inc. ORS has no objection to the connection charge for new service as proposed by the Company.

Q. PLEASE ADDRESS THE COMPANY'S ADJUSTMENT REGARDING COAL INVENTORY.

A. At the end of the test year, Duke reported a coal inventory of seventy-three (73) days at full load burn, which is valued at \$484,220,000 on a system basis. Duke recognizes that inventory levels are higher than normal and Company Adjustment #16 reduces test year inventory levels to fifty (50) days full load burn. This adjustment to materials and supplies, as proposed by the Company, results in a reduction to South Carolina rate base in the amount of \$39,269,000.

Q. PLEASE EXPLAIN ORS'S PROPOSED ADJUSTMENT TO THE COMPANY'S COAL INVENTORY.

A. Commission Order Nos. 2012-77 and 2010-79 authorized Duke's rate base return on forty (40) days of coal inventory. ORS recognizes that low natural gas prices resulted in Duke dispatching lower cost natural gas generation ahead of their coal generation fleet. Meanwhile, coal plant retirements during the test year have also contributed to growth in the coal inventory. ORS believes that these circumstances do not warrant deviating from prior Commission Orders in which a return on forty (40) days of coal inventory was approved. Therefore, ORS recommends reducing the Company's coal inventory levels to a forty (40)-day level rather than the fifty (50)-day level proposed by the Company in Adjustment #16.

Additionally, ORS recommends modifying the Company's calculation of the cost of its inventory to \$97.50 per ton to reflect the delivered cost of coal during the test year.

1 ORS's modifications further reduce the Company's rate base by approximately \$18.2
2 million, as reflected in ORS witness Robert Lawyer's Adjustment #16.

3 **Q. HOW WILL THE COMPANY RECOVER THE COST OF THE EXCESS**
4 **INVENTORY?**

5 **A.** The cost of the Company's coal will be recovered once the coal is burned and
6 verified as part of the Company's annual fuel review. However, instead of adding the
7 excess inventory to rate base, ORS recommends that the Company be allowed to earn a
8 return on the excess inventory similar to the accounting treatment of a rate base item.
9 The return would be calculated based on the Company's cost of capital established in this
10 Docket. ORS proposes the Company recover \$6,769,000 in carrying costs on the excess
11 inventory for one (1) year effective with any new rates that are approved by the
12 Commission in this proceeding. Because these funds are in addition to the proposed
13 increase in this Docket, ORS further proposes that they are offset by funds from the Cost
14 of Removal Reserve which is addressed by ORS witness Leigh Ford.

15 **Q. PLEASE EXPLAIN ORS'S CUSTOMER GROWTH CALCULATION**
16 **INCLUDING THE RESULTING CUSTOMER GROWTH FACTOR FOR THE**
17 **COMPANY.**

18 **A.** ORS found an increase in the number of Duke customers in South Carolina when
19 comparing the end of the test year and the average number of customers during the test
20 year. To capture the additional revenues and expenses generated by customers added to
21 the Company's system, ORS included an adjustment for customer growth. The customer
22 growth factor is calculated by taking the difference between the total number of
23 customers at the end of the test year and the average number of customers during the

1 year, and dividing the result by the average number of customers during the test year.

2 This methodology yields a retail customer growth factor of .004797 for the Company.

3 The impact of this adjustment adds \$1,593,000 to the operating income, after the
4 proposed increase, as shown in ORS witness Robert Lawyer's Exhibit RAL-1.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A.** Yes, it does.